Be a prudent investor

The rise in stock prices to record levels has brought with it a spate of new stock issues.

When demand for stocks is at a peak, it's clearly an ideal time for a non-public organization to "go public" with an offering of its shares.

And usually there are plenty of eager people, thrusting forward their money for a chance to become "charter members" or initial subscribers. In today's heady atmosphere, there's a widespread feeling that no matter how high the price of a stock is, it will surely go higher still.

That, of course, is a dangerous myth. Prudent investors always investigate both sides of a stocks's

VINCENT EGAN

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story before they invest.

That story — where a newly issued stock or other investment security is concerned — is contained in a booklet called a prospectus.

If you are buying such a security, the law requires that you be given a prospectus that has been accepted by the provincial securities commission. It also requires that you be given time to read it before your financial commitment becomes binding; if you don't care for the story, you have an absolute right to cancel your order and have your money returned to you in full.

Unfortunately, few individual investors ever do read a prospectus in full, or even nearly so. However, you can pick up most of the essentials with some skilled skimming of the prospectus's pages, most of which contain tables of figures or the stylized jargon that's common to this field of law.

The first essential to be picked up is *the size and type of securities* being offered for sale. Prominently on the front cover is the amount of the debt that's being funded (if it's a bond or debenture), or the number and class of shares being issued.

Immediately, therefore, you might be able to reject the issue as unsuitable for your circumstances. Example: If you are of retirement age and need a regular, dependable return on your investment, you would obviously say "no" to a highly speculative undertaking involving a newly launched company.

Events during the past year, involving Canadian Tire Corp. and its various classes of shareholders, have made another piece of advice especially important: Turn to the section headed Description of Share Capital, and read what is written under Voting Rights.

Be wary if you are being offered common shares without the right to vote. Even if you never attend annual meetings of shareholders, you should know that many non-voting common shares have been taking a beating on the stock market, relative to their voting counterparts.

If it's an issue of preferred shares — which, by definition, are non-voting — scan the prospectus to see if preferred shareholders have the right of retraction (that is, the privilege of selling your stock back to the issuing company at a specified price and date).

And if the securities are bonds or debentures, you will be lending your capital to the issuing company (rather than buying a piece of ownership), so check what is said about a redemption fund. Is provision being made to set aside the money that will be needed to pay back the capital that you and other bondholders have put up?

Short of a personal meeting with the directors and officers of the company, and a tour of its operations, there's probably no better source of corporate information than a prospectus.

But you have to do some supplementary work yourself, or ask for it from the issuing investment dealer ("underwriter"). How does this company's rate of return on investment compare with its competitors?

What are its corporate objectives? It's fine to be "a good corporate citizen," but if that means that the company will keep operating a losing branch plant just to protect jobs, that could prove to be a highly risky place for your hard-earned savings.

The old adage still applies: Buyer beware.

Sorting out all your RSP choices

One of the great benefits of the RRSP is also one of its drawbacks: the large number of types of RRSPs you can choose from. "Looking at them together is enough to confuse even a sophisticated investor," says Terry McIntyre, Branch Manager of *First City Trust in Brampton*. "But if you break them down into categories, they're really quite simple to understand."

There are basically two major types of RRSPs:

1. Guaranteed Plans:

They guarantee that your principal will be returned intact and that you will be paid a certain amount of interest within a certain time frame. These are extremely safe investments (when purchased from a financial institution that belongs to the Canada Deposit Insurance Corporation, they are insured for up to $60,000), but generally don't offer as much potential for high return as a non-guaranteed plan. With some guaranteed plans, there is a withdrawal fee.

This, of course, can prove to be an advantage or a disadvantage, depending on whether interest rates rise or fall after you purchase your RRSP. In the majority of cases, the interest rate paid is higher than that of an RRSP savings account. Another benefit of the RRSP term deposit is that you often have a choice of having your interest paid to another investment option or having it reinvested in the RRSP term deposit itself.

2. Non-Guaranteed Plans:

There is no guarantee that your RRSP will earn any rate of return or that your principal will remain intact when you purchase a non-guaranteed plan. There is, however, the potential of earning considerably more than you would with a guaranteed plan.

The types of non-guaranteed plans available to you are:

(i) Registered Life Insurance Plans:

Usually identified as flexible premium guaranteed interest annuities or single premium deferred annuities, this type of RRSP is similar to a guaranteed plan. The differences are that they are not insured by the Canada Deposit Insurance Corporation, and sometimes a fee is involved in opening the RRSP or having it administered.

Some life insurance plans offer a combination of life insurance and a savings feature which can be used for RRSP purposes. Such plans are quite rare today, two reasons being that they often involve large charges on establishing the RRSP, and penalties for withdrawal.

(ii) Pooled Funds or Mutual Fund-Type Plans:

When you purchase one of these RRSPs you are, in effect, buying units in a fund formed by a group of investors and thereby becoming a part owner in the total fund. The fund into which your money has been put is administered by a manager. Gains in the investment portfolio are passed to your RRSP (after the manager takes his or her fee), based on how much of the fund you own. Likewise, losses in the portfolio are reflected in the value of your RRSP.